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"THE POSITIVE THEORY OF CAPITAL."

Professor Böhm-Bawerk's *Positive Theory of Capital*,[*] the promised sequel to his *History and Criticism of Theories of Interest on Capital* (1884), appeared early in January of the current year. A short sketch of this important book will serve to supplement the account of the Austrian school of economists, given in a recent number of this *Journal*.[†]

By Capital, in a general sense, the author understands all "products used to procure goods." This definition excludes land and labor as not being products; and it includes private capital as well as social capital,—the means of procuring goods by hook or by crook for the individual as well as the means of procuring them for the whole body of men by production. It is the latter (or social capital) that is discussed in the first part of the volume before us; and, where "capital" occurs without an adjective, we are to understand by it, not a means of income, but a means of production. Private capital has its share of attention in the second part of the book, where Interest is the subject.

Social or productive capital is further described as "a group of intermediate products," or, in other words, products which are the means to the making of other products. The definitions of other economists are briefly examined. We are shown, for example, that Senior was wrong in explaining capital as mere abstinence, though so far right that capital is not possible without abstinence or saving, the said abstinence or saving having in reality much more than a merely negative character. A dozen other definitions fare little better than Senior's.[‡] There is just enough of this critical and historical element to make the present book nearly complete in itself apart from its predecessor.

Capital, then, is something different from land; but it is

Kapital und Kapitalzins, IIte Abtheilung: Positive Theorie des Kapitals. Innsbrück, 1889.

[†] October, 1888.

[‡] *Kapital und Kapitalzins*, ii., Book I. § iii.

not placed on an equal footing. It is dethroned from its place in the time-honored trio of productive agents,— "Land, Labor, and Capital." The notion that capital had an independent power of production was due to the supposed need for a counterpart to the third member of the trio of incomes,— "Rent, Wages, and Profits." These were really separate incomes, but their counterparts were not in the same sense separate sources of production. The only independent agents of production are natural forces (called by metonymy "Land") and human labor. There is no third. Capital is neither an agent nor an end, but a means. When a stone kills a man, the thrower, and not the stone, commits murder; and, when capital results in a product, it is man and nature that are responsible for the production.

If capital is not productive, what, then, is its function? The answer is as follows: In production, man slips alongside of natural forces and turns their work to his purposes. Now, he finds that he gets the best result, as a rule, when he makes use of them in a long and indirect rather than a short and direct process. Their longest way round is his shortest way home. The long ways, however, are precisely the ways of capital. Capital forms the steps in a roundabout journey. Once the journey has been made, no doubt all later journeys of the sort are shortened. It is the first steps that cost. Once the net is made, more fish are caught, and caught more quickly, than by the line or the bare hands. But the first making of the net was a long and slow process. If, indeed, the way of capital were always (what it is sometimes) not longer, but shorter, than the direct way, there would, as we shall find, be no interest on capital; for there would be no loss of time involved in the employment of it. Interest on capital is due to loss of time implied in a long as against a short process of production. That is Böhm-Bawerk's theory in a nutshell.* Jevons had spoken of all production by capital as requiring a "lapse of time between the beginning and the end of industry," but he did not see how vital was this lapse of time to the very existence of interest.

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* In the January number of this *Journal*, Professor Patten of the University of Pennsylvania, in an article on "The Fundamental Idea of Capital," published views which are in many respects strikingly similar to those of Professor Böhm-Bawerk, though they must have been reached in entire independence.

We must approach this vital question through the theory of Value, which is an essential preliminary in all discussions of Distribution. The theory of Value held in common by the Austrian economists has been already described in this *Journal.** The earlier essays of our author on this subject have been incorporated in his new book, and we need only notice such portions of his earlier exposition as have been amplified by him for better application to the particular subject before us. The chief is perhaps the doctrine of the value of complementary goods. Menger had long ago defined capital itself as a "total of complementary goods of higher rank." The goods in a complementary group have, as a group, a value that is different from their value taken severally. Ink and pen, rifle and cartridges, right and left hand gloves, are specially obvious examples; but their name is legion, and includes, we may say, all "freely produced" goods whatsoever. Now, when any parts of the complementary group are replaceable by substitutes, those parts have, in separation, only the value of those substitutes. If some bricks for the building of a house are destroyed, others are easily procurable; and the value of the bricks will be only the value of the easily procurable substitutes. But, where any one of the parts is irreplaceable, then the value of that part will be equal to the whole difference between the separate values of the replaceable goods (say, the bricks, mortar, wood, lath, and plaster) and the value of the entire house. We should, even in common experience, deduct the former from the latter, and attribute the value of the house (*i.e.*, its special value as a combination of all these and the remaining elements) to such irreplaceable features as situation or architecture, or whatever tended to make it in any sense unique. Common language gives the irreplaceable factors the credit of the whole. It is as when we speak of "the land" as producing a rich or a poor crop, though the ploughman, the plough, the sower, and the reaping-machine had all a hand in it. The replaceable goods are reckoned as COST, and the rest of the means of production get the credit of the production itself. In a factory, for example, the production is, in common language, ascribed to the managing employer, because it is his directing skill that is supposed to be the one irreplaceable factor in the business.* The complementary character is more plainly stamped on some groups than on others, but there is a sense in which every process of production whatever involves a complementary group; for every production involves a combination of land, labor, and capital, and, so long as we respect the *caveat* above mentioned, we should not be inaccurate if we assigned to these three their shares in the value of any product in accordance with the above principle of Complementary Value. We should then distribute the shares as, respectively, rent of land, wages of labor, and interest of capital. By the method of Residues, it might even be thought possible to ascertain the amount of interest by deducting wages and rent from the total. But all that we could really discover in this way would be the gross returns to the whole process of production, not the net interest and profits. Profits, indeed, we may cease to consider as a special part of this inquiry; for (according to our author) what of it is not wages of management is the gain of speculation or opportunity, and falls under a different category from interest. Now, by the doctrine of Complementary Value, we should more naturally expect to find nothing over at all, after the said deduction of wages and rent, than to find a surplus called Interest; we should expect all to go to the irreplaceable land or to the irreplaceable skill of the managing employer.

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* October, 1888.

Interest, therefore, is still a problem. It had been shown † by our author that the value of the means of production lags behind the value of the finished product. How and why does this come about?

The explanation lies in the difference in value between present and future goods as such, whether they are goods ready for consumption or products converted into capital. All economic action or husbanding of goods depends on the psychological fact that human motives include the idea of future as well as of present satisfaction. The greater part of our stock of goods is not for present, but for future use. The greater part of our motives relate to future satisfaction. The economist accepts this as a fact of every-day experience and as implying the commensurableness of present and future wants in men's estimates of Value. Men habitually compare present wants and satisfactions with future wants and satisfactions. They value present goods and future goods in one and the same way; namely, by the measure of their actual and their probable resources,—in one and the same way, but not at one and the same rate: "also, but not likewise." Their estimates are usually to the disadvantage of the future. "A bird in the hand is worth two in the bush." "*Bis dat qui cito dat.*" Such maxims imply that, other things being equal, the present is more to a man than the future. But other things may not be equal, and the future may be more to a man than the present. An annuity twenty years hence may, through his probable slackening of energy and need of retirement from business then, be of greater "subjective value" to him than it would be now. So ice in the month of February is less valuable than it will be in July. To a crew now in port, water is less valuable than it will be next week in mid-ocean. To a large body of men, whom we call capitalists, present goods and future are, on the whole, of about equal (subjective) value: they have more than enough for present wants. Ordinary men (as distinguished from wise men) are tempted by their own imperfect grasp of the future or by weakness of will or by a sense of the uncertainty of life to give even more weight to the present than it ought to have as against the future; and the final utility of future goods appears smaller than it should be, because of the personal "perspective" in which the individual sees it. It will be observed that Professor Böhm-Bawerk admits that our criterion is not what every man thinks to be good, but what the wise men think to be so.* Even the wise men, however, value present goods, *caeteris paribus*, above future. This general superiority in value of present goods to future is of cardinal importance for our author's theory of interest, and it is to be regretted that space will not allow us to trace out in detail the long proof he devotes to it.*

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* The allocation of the shares in the whole value to the several factors is a subject treated with great skill and fulness by Professor Wieser in a recent monograph on *Natural Value*, published in Vienna at the end of last year.

† See *Quarterly Journal of Economics*, October, 1888, p. 21.

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* Compare *Quarterly Journal of Economics,* October, 1888, p. 24.

In the case of productive goods in particular there is a technical (or physical) reason for the difference of present and future, not to say past and present; and that is simply the tortoise's advantage in having the first start in the race. Means of production set working in the present, and forming part of a fruitful, because roundabout way of production, have clearly the advantage over what has not already begun its work, but only begins next year or later. The old maxim, "Never put off till to-morrow what you can do to-day," is certainly sound where success depends on the accumulated result of continuous efforts. Present means of production are therefore, *caeteris paribus*, superior to future.

Thus (to use the words of our author), "whether from the difference of men's resources in present and in future respectively, or from their tendency to undervalue future joys and sorrows, or else from regard to the technical superiority of present goods over future,—in any case, the overwhelming majority of human beings set a higher subjective value on present than on future goods otherwise identical. From such subjective valuations arise, in the general market, a higher objective value in exchange and higher price for present goods. The said higher objective value and price react on subjective valuations, and thus give to present goods a higher *subjective* value in exchange,† even with those persons for whom (through their personal circumstances) such higher subjective value would not otherwise have existed. Finally, the levelling tendencies of the market make the depreciation of future goods bear a regular proportion to their degree of futurity. Accordingly, in the economy of nations, future goods are depressed both in subjective and objective value more or less deeply in proportion as they are more or less remote from the present." * This is the origin of economic interest, whether on loans, employer's capital, or fixed capital.

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* *Kapital und Kapitalzins*, ii. 261 *et seq.*

† See *Quarterly Journal of Economics*, October, 1888, p. 13. *Subjective* value in exchange is the *importance to me* of an article exchanged by me.

In the case of a Loan (*Darlehen*), as distinguished from a case of Hiring-out, we have simply an exchange of present goods for future: the interest represents the difference in value between two precisely similar goods, of which one is present and the other is future. As difference in Space has always been thought enough reason for exchange of one article for another, say of a field far from my house and near my neighbor's for a field near my house and far from my neighbor's, so difference in Time is an equally sufficient reason. There is no need to imagine, as some have done, a "use" of the article which is separable from the article itself. The article lent (say a crop of corn) is not only used, but used up: no "use" of it remains over, when the time comes for repayment. What is returned to the lender, even where there is no fraud whatever, is an article which is physically different, though it is legally and economically equivalent. The payment of the premium (or in exceptional cases of the discount) on the difference in time is usually made by instalments; and this accidental circumstance has caused the false impression that the payment of the premium is made for something existing separately from the thing lent. But the value of the goods eventually repaid and the value of the several "interests" paid in the way of instalments are together, normally, no more than equal to the value of a future good transferred vicariously to the present before its time.

The second case, or Interest on Productive (or Social) Capital,† is less simple. In the following statement of Böhm-Bawerk's positions in regard to it, no violence has (it is believed) been done to his thought, though some liberties have been taken with his language.

Present means of production will (on the principles just explained), other things being equal, bear a higher value than future means of production. But, as only *means* of production as distinguished from finished articles, they are in much the same relation to the finished articles as future finished articles to present finished articles. They are physically present, but by deliberate human purpose they have been made, economically, rather future than present; and, till they have issued in their product, they have, at least in relation to products, the inferiority of future goods to present goods. Accordingly, the value of the means of production is normally found to lag behind the value of the finished article.* The inferiority of the former seems the more conspicuous when we regard consumable goods or finished articles as either themselves food or easily convertible into food for workmen, and therefore as being the condition without which the potential product will never become actual. Food is not itself capital, but it is a condition under which capital results in its finished product. The food supplied men to-day enables them to work to-day at a process of production which will bring them finished goods two or three years hence, but no food, in the mean time, to support life while they are at work.

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* *Kapital und Kapitalzins*, ii. 299.

† *Ibid.*, ii. 315 *et seq.*

We have next to remember that, of several alternative ways of production, it is not necessarily the one that leads to the greatest quantity of produce that leads also to the greatest value; and it is the latter, not the former, that determines economic superiority. Great quantity and great value are, indeed, almost inconsistent with one another. In the second place, productiveness, even in the case of goods freely produced, cannot be extended and expanded indefinitely at the same rate of increase, "or else we should spin all our cotton in the one most favorably situated gigantic mill." † There is a law of decreasing productiveness not only in agriculture, but in manufacture.‡ Taking these considerations together, we see why it is impossible to pronounce off-hand whether the most profitable production will be the longest or the shortest or (though this is the most likely) an intermediate. The old formula that normal value was equal to cost together with interest does not help us, even if we paraphrase interest as "the *agio* of present over future." Of two or three alternative ways of producing the same article, the difference in quantities produced, which is usually in favor of the longer ways, might overcome the difference of time, which was in their rivals' favor, and lead to a greater aggregate of value as well as quantity. A short way (A) might thus, for example, secure 100 units of value, an intermediate (B) 250, and a long (C) 350, the later (D, E, F, etc.), though resulting in greater quantity, falling off in value to 300, 200, and so on. A particular process (E) might take a long time, and yet yield, after all (because of decreasing productiveness), so very little more than the one next to it in productiveness that the margin of difference is swallowed up by its futurity. An investment to which this happened would find itself just outside the paradise of profitableness, and the one next above it would be the final or marginal* investment, as being the least profitable of the "nevertheless profitable" investments. The product of this final investment would be the final product whose value rules the value of all its kind, by whatever other method produced. The competition of the capitalists themselves will prevent the value of that product which is got by the final way of investment from becoming or remaining greater than the amount of the premium on present, as compared with future, goods. Anything beyond it would be the gain of the speculator, and not the interest of the capitalist employer.

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* See *Quarterly Journal of Economics*, October, 1888, p. 21.

† Mr. S. Webb, in *Quarterly Journal of Economics*, January, 1888, p. 204.

‡ *Kapital und Kapitalzins*, ii. 89.

Let us see how the capitalist employer proceeds with his investment. In the market of labor, he represents the demander over against the workmen, who represent the suppliers and who are (we may assume) without capital. He is clearly in a position of advantage. If he has any preference, it is rather for future goods than for present, whereas to the workmen the present goods mean their livelihood. They are forced to sell their labor, for the alternatives are either to starve or to work at methods of production (say hand-loom weaving) which are obsolete and do not yield enough to support life.† In the market of the means of living (which we may call briefly the market of food, though our author includes all that supplies the several wants made necessary to men by their several standards of living), the workmen are in this case the demanders, and the supply consists, roughly speaking,* of the whole existing stock of finished goods in the community, the function of this stock being to support the works in the interval between the investment of capital and the completion of production. The "advances" of food, however, need not be the full quantity that will in the end be required during the whole period of production; for the capital is invested by stages, and the food may be in like manner advanced to the workers by stages also. The first advances may be little more than half of the quantity of food that will be ultimately needed. Yet the demand for present consumable goods — or, in other words, the demand for the means of living — will always exceed the supply.† There will always, even from this point of view, be a premium on present over future goods, and therefore an interest on capital. It is simply a special case of the general principle that the limitation of the supply of a needed article will be the cause of value.

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* "Marginal utility" is a happy phrase used by P. H. Wicksteed, *Alphabet of Economics* (Macmillan, 1888).

[See also Professor Patten's note on "The Margin of Cultivation," p. 356 of this number.]

† See the tables given in *Kapital und Kapitalzins*, ii. 402–404.

There is one more case to be considered,— interest on durable goods in general, and fixed capital in particular.

The explanation, however, is similar. In the case of all perishable articles (including "circulating capital"), the value plainly depends on the final utility of the total of the services they render. The thing and the uses of the thing are, even to the vulgar eye, inseparable. Now, to the eye of pure reason, the same is true of the durable article. Its value is not equal to its total services, but to their final utility; and the final utility of a future service is less than the final utility of a present in proportion to the length of time that lies between them. Therefore, we ascertain the value of a durable article,— say, a gate or a house,— not by adding its total services, which might be indefinitely numerous and go on for a century or two, but by adding the final utilities of them.

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*The exceptions are given below, p. 349.

†Here, again, our limits of space forbid us to reproduce our author's extended proof.

The latter will give us a series, not of identical, but of dwindling items. Suppose a half-acre field to yield 20 bushels of wheat on an average every year, the value of that field is not the value of the said 20 multiplied by infinity, but the value of 20 present bushels added to the value of 20 of next year, which are only equal (*cæteris paribus*) to about 19 of this year, and to the value of 20 of the third year, which are in value only equal to, say, 17½ of this year, and so on. We should thus get a total of diminishing items,—20+19+17½+15+12½+10+7+4+1+0, the sum of which is not infinity, but 106, or the value of 106 bushels; and the price of the field would be not infinity, but (at 5*s*. a bushel) £26 10*s*. The value of land itself is only a particular case of the value of durable goods; and we see how a man may pay the full value of the land and yet receive, year by year, a net profit from the rental of it. He pays the present value of the future services of the land, knowing that "the future belongs to him who can wait." He waits accordingly; and the future goods, which he bought when they were still future, come to him when they are present, and therefore more valuable. In this way, though he paid the full price, he reaps a net income. Ricardo's theory did not carry us so far: it explained only the gross returns, and not the possibility of a net rent from the land. It rightly applied to the value of agricultural produce the principle of final utility and of the value of complementary goods, doctrines of which it had unhappily made no use in any other connections. But Ricardo's reference to the "indestructible powers of the soil" betrays the defects of the theory. The value of a quarry exhaustible in fifty years would be no less than the value of a field yielding an annual produce of only the same value as the quarry's; and yet the field would probably be, for all human purposes, indestructible. The lender of money, the employer of labor, and the purchaser of land have one feature in common,—they hold the present cheap in comparison with the future, and they deal with men who hold the future cheap in comparison with the present. The gains, so far as they are mere interest, are no injustice to the latter. Of course, "like other human institutions,"* interest has its abuses and perversions; but, in itself, it is a necessary economical category, and not merely a historical one.

The case of fixed capital, being the case not of durable goods in general, but of durable "products used for production," has, no doubt, complications of its own. If nearness to the final product lessens the depreciating effect of futurity, nearness to the point where the fixed capital becomes exhausted or worn out has a contrary effect. In many cases, the services or uses of the fixed capital are detached in the course of production and have a separate embodiment of their own: the first yarns are turned off and dismissed from the mill to the factory, though the life's work of the spinning machinery will last for years afterwards. But these belong to the many complications due to the highly organized division of labor in modern industry, where what is economically a single process of production is broken up into branches treated separately by separate trades. In all essential respects, interest on fixed capital is like interest on any other durable goods.†

We have thus seen the cause of the existence of interest. We have now to see the causes that make interest high or low. Let us take the question in its most difficult form, where there is competition of traders in open market. Let us simplify the problem first by supposing that the finished goods in the market are offered in demand for labor, and for nothing else; second, that the market embraces the whole people, so that in dealing with it we are dealing with the whole economy of the nation; and, third, that all branches of production concerned have the same productiveness and the same scale of increments in productiveness corresponding to their long and short methods of production.

Our first difficulty will be with labor; for, unlike other goods, labor is not subjectively of a fixed value, but owes its value to its anticipated products. The buyer of any other article knows the article's precise importance to him before he buys it; but, in going to purchase labor, he does not know what the value of it is to him, except by the anticipated value of its possible products. On the other hand, given the value of the product, the profitableness of its production depends partly on the wages paid to the workmen that help in the production. But we have fortunately a fixed point here, which is not fixed in other cases,— the total of the quantities that pass from the employer to the laborers; for we are bound to assume that the two parties, one from necessity and the other from choice, will in every case come to a bargain, and therefore the whole available stock of consumable goods will pass from the one to the other. The rate of wages will be such as will employ all the workmen,— non-employment is exceptional and due to dislocations in the industrial organism, — and the rate of interest will be determined by the productiveness of the last applied portion of capital that is economically applied at all: Von Thünen was quite right on this point.* The special determining elements are the amount of the fund of subsistence, the number of workmen, and the scale of productiveness. Interest is high, if subsistence is small and if workmen are many and if the productiveness goes not increasing with large increments. It is low, if the reverse be the case. Experience confirms these positions, for it shows that, with the increase of the means of subsistence, the rate of interest declines; that the said rate of interest depends, not on absolute amount of capital, but on its proportion to the working population; and, finally, that the discovery of new and advantageous methods of production or exchange sustains the increments in productiveness and keeps up the rate of interest,— whereas the contrary has the contrary effects.

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* *Sic*, *Kapital und Kapitalzins*, ii. 385, cf. 398. The phrase is less felicitous than usual; for it suggests deliberate human invention, which is certainly not meant.

† Here and elsewhere, our author might have given us a few illustrations, say, from Babbage's *Economy of Machinery and Manufactures,—e.g.*, pp. 51, 100, 110-112, 174, 211, 225, 231, 301 (ed. 1832).

When we remove our assumptions, our conclusions need little modification. Competition levels inequalities in the various branches of production and in the various markets of the actual industrial world. Skilled labor is translatable into a multiple of unskilled. Periods of production and increments

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*See his book *Der isolirte Staat*, as quoted in *Kapital und Kapitalzins*, ii. 421. A theory like Von Thünen's was given in this *Journal* by Mr. S. Webb, January, 1888.

of productiveness are unequal in different branches; but capital seeks equality of increment,[*] though it may be not in the straight lines of our abstract tables, but in the zigzag lines of ordinary life. Further, finished goods are, as a matter of fact, wanted for unproductive consumers, land-owners and people living on interest of capital, as well as for productive laborers. We have to add to our three elements determining the rate of interest four more,—the extent and intensity of the demand for loans for consumption, the amount of rent of landlords, the sums paid to capitalists living on their profits, and, we should add, the economic temper of the whole population, employing and employed, whether they come near to the ideal of economy and provide for the harmonious satisfaction of present and future wants alike, or are preoccupied with the present to the neglect of the future. Still, these four elements are to the first three as minor electric currents caused by induction are to the chief currents themselves. The two groups act and react on each other, but the major remain the major.

Readers of this *Journal* will observe that Böhm-Bawerk has fully anticipated the wish expressed in a recent number,[†] that the Austrian economists should apply their theory to the various forms of modern industrial life. It has been impossible, however, in the limits of a short article, to follow every step of our author and cover his whole ground. For like reasons, it is impossible to do more than mention the kindred work of Professor Wieser on *Natural Value*,[‡] which includes, amongst other things, an ingenious attempt to show that under a communistic *régime* the economical phenomena of value would all reappear, and the kindred work of Dr. Zuckerkandl on the *Theory of Price*.[§]

It may be well, however, in view of the challenge in the October *Journal*, to present the views of Böhm-Bawerk on the Wages of Labor in somewhat greater detail. Wages (he says), being an easier theoretical problem than interest, cannot usefully or logically be described as interest on personal capital. They are payment of labor, and enter into the "cost" of goods, like any other replaceable factor of a complementary group. Their amount is determined, on an average, not by a wages-fund, but by the mutual proportions of the fund of subsistence, the numbers of the laborers, and the productiveness of the dominant industries. The wages-fund which the English economists took for one of the two factors in the solution of the problem was really the very problem itself. What we want to know is why the amount given to laborers is high in one case and not in another. The English economists, too, did not sufficiently observe that, if we take the total fund of subsistence at any given time, we do not know whether it will be devoted to paying laborers for one year or to paying them for six, whether it is to be spent on a directly remunerative enterprise or sunk for some years in machinery or other fixed capital. We must give up the theory of a wages-fund; but we do not, therefore, accept the socialistic view that the laborer who gets less than the ultimate value of his product is defrauded of the difference. There only seems to be a fraud when we judge of the wages from one point of time and the value of the product from another. The surplus value is simply the difference between present and future; and it appears in the case, not only of the product of labor, but of agricultural or, indeed, any other produce: 100 future bushels are not paid so highly as 100 present, 100 calves as 100 cows, 100 saplings as 100 trees. Even under a socialistic direction of industry, this difference would appear; for socialism itself cannot make future into present. Is a forester who plants a row of saplings that will, in the remote future, be worth £100 * to be paid that sum in wages now or that sum in wages then? The latter course means starvation to him, the former unfairness to his fellow-workers, whose products are (like the baker's, for example) realized at once. But, if he gets the whole £100 neither now nor in the future, he will probably be paid at a rate equal to his fellows; and what is over of the £100 which

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[*] Equality of height of increment, Isohypsia [*ἰσο-ὑψία*], *Kapital*, ii. 435.

[†] October, 1888, p. 28.

[‡] *Der natürliche Werth.* Theil I.: Der Werth in der Privatwirthschaft. Theil II.: Der Werth in der Staatswirthschaft. Von Dr. F. von Wieser. Wien: A. Hölder.

[§] *Theorie des Preises,* mit besonderer Berücksichtigung der geschichtlichen Entwickelung der Lehre. Von Dr. Robert Zuckerkandl, Wien. (Leipzig, 1889.)

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* Or 100 units of value, whatever be the units chosen.

he will have produced will be secured, as the years go on, by the whole society for the general benefit. There is thus an "exploitation" of this worker for the general good. The difference between present product and future product has perforce been regarded, and the confiscated surplus value has been nothing more or less than interest. Confiscation for the general good does not transform it into wages any more than a selfish use of wages transforms them into profits.* Interest, in short, has an economical essence, which must be distinguished from its historical accidents. The essence of rent is not the payment of a tenant to a landlord, but a surplus produce that would go to the peasant owner of a fertile farm, or would, under socialism, be taken away from him for the benefit of the general public. In the same way, it is no part of the essence of interest to be a payment, to a wealthy individual, of a surplus produce that the accidents of birth or opportunity enable him by law to confiscate. Such accidental circumstances may surround it now, but they may be conceived to disappear. The majority of men may not always, as now, be under the absolute necessity of working for wages. But, even if private property is abolished, the essence of interest would remain; for no development of human society will abolish time.

It would be bold to say that Professor Bōhm-Bawerk has said the last word on the theory of Interest. But his theory so happily combines ingenuity with simplicity, and he has shown himself so frank in anticipating objections and facing difficulties, that his book must be regarded as one with which all subsequent writers will have to reckon.

James Bonar.

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* *Kapital und Kapitalzins*, ii. 394, 395.